

**Case No. OGRA-6(2)-2(3)/2005-Second Review**

**IN THE MATTER OF**

**SUI SOUTHERN GAS COMPANY LIMITED  
SECOND REVIEW OF ERR, FY 2005-06**

**UNDER**

**OIL AND GAS REGULATORY AUTHORITY  
ORDINANCE, 2002 AND  
NATURAL GAS TARIFF RULES, 2002**

**DECISION**

**November 18, 2005**

**Before:**

**Munir Ahmad, Chairman**

**Jawaid Inam, Member (Gas) / Vice Chairman**

**Rashid Farooq, Member (Oil)**

**M.H. Asif, Member (Finance)**



## **INTERIM ORDER**

1. Sui Southern Gas Company Limited (the petitioner) is a public limited company incorporated in Pakistan, which is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The company is engaged in the business of construction and operation of gas transmission & distribution pipelines, sale of natural gas and gas condensate as by-product, and manufacture & sale of gas meters.
2. The Authority had determined the Estimated Revenue Requirement (ERR) of the petitioner for FY 2005-06 (the said year) at Rs. 63,879 million vide its Order dated May 20, 2005, under Section 8(1) of the Oil & Gas Regulatory Authority Ordinance, 2002 (the Ordinance). The petitioner had submitted a review motion (the review motion) on June 16, 2005 under Rule 16 of the Natural Gas Tariff Rules, 2002 (NGT Rules, 2002) for determination of its revised ERR for the said year at Rs. 64,802 million (the amounts have been rounded off to the nearest million here and elsewhere in this document) and estimated operating revenue at Rs. 63,610 million. The petitioner had claimed a shortfall of Rs. 1,091 million, which translated to an average increase of Rs. 3.51/ MMBTU in the current prescribed prices. The Authority had determined the operating revenue as well as revised ERR of the petitioner for the said year at Rs. 63,855 million, vide its Order No. OGRA-6(2)-2(1)/2005- (Review), dated October, 19, 2005, thereby leaving the prescribed prices for various categories of the consumers unchanged.
3. In pursuance of the Authority's directives per para 8.1.7 of its Order dated May 20, 2005, the petitioner has now submitted this second review motion (the motion) on October 21, 2005 under Section 8(2) of the Ordinance, incorporating the change in the Weighted Average Cost of Gas (WACOG) during the period January-June 2006, projecting shortfall in ERR of Rs. 3,941 million. The petitioner has submitted that WACOG is projected to increase to Rs. 156.51/ MMBTU as against Rs. 144.32/MMBTU projected while determining the ERR for FY 2005-06, owing to sharp increase in average crude oil/High Sulphur Fuel Oil (HSFO)



- prices in the international market during June-November 2005, which is used as a basis for determining the wellhead prices of gas producers in terms of Gas Pricing Agreements (GPAs) between the Government of Pakistan and various gas producers.
4. The petitioner, vide its letter dated November 11, 2005, has sought interim relief, through increase in average prescribed prices by Rs. 23.15/MMBTU, effective January 01, 2006, to recover the total impact of increase in the cost of gas since sales prices cannot be increased on retroactive basis.
  5. In view of the fact that the petitioner has no alternative but to pay the increased cost of gas to its producers, w.e.f January 01, 2006, the Authority admits the application of the petitioner for interim relief under Rule 5(7) of the NGT Rules, 2002 which reads as under:

*“The Authority may, while admitting a petition, allow the immediate application of the whole or a part of the tariff proposed by the petitioner, while the proceedings are pending before the Authority, subject to an order for refund for the protection of consumers or an order for satisfactory security to be provided for such refund.”*
  6. The petitioner has worked out the estimated increase in the cost of gas using the following basis and assumptions:
    - (i) Wellhead gas prices for the period July 1, 2005 to December 31, 2005 as already notified by OGRA.
    - (ii) US \$ exchange rate assumed at Rs. 60 from January 01, 2006.
    - (iii) Prices of crude oil and HSFO during the period June, 2005 to November, 2005, to form the basis for notification of the well head prices for the period January 2006 to June 2006 under the existing GPAs.
    - (iv) Crude oil and HSFO prices for the period June 2005 to September 2005 have been taken at actual. For October 2005 and



November 2005, crude oil price has been assumed at US \$ 60 per barrel and US \$ 62 per barrel respectively, and for the same months HSFO price has been assumed at US \$ 320 per ton and US \$ 340 per ton respectively.

- (v) On the above basis average C & F price of crude oil for the base period for January 2006 to June 2006 has been estimated at US \$ 58.39 per barrel and of HSFO at US \$ 299.56 per ton.

7. The Authority has scrutinized the computation of cost of gas submitted by the petitioner and found the same to be a reasonable estimate on the basis of information currently available.
8. The shortfall in revenue requirement of Rs. 3,941 million as claimed by the petitioner as a result of the above said estimated increase in cost of gas is provisionally accepted and since the same cannot be recovered retroactively through increase in the gas prices, the only option is to recover it in the remaining six months i.e. January - June, 2006.
9. The Authority, therefore, in exercise of its powers under Rule 5 (7) of the NGT Rules, 2002, allows an increase of Rs. 23.15/MMBTU (**Annexure-I**) in the average prescribed price of the petitioner **on provisional basis** w.e.f. January 01, 2006 to enable it to recover the estimated shortfall in its ERR for FY 2005-06 on account of increase in the cost of gas. The revised schedule of prescribed prices of the petitioner w.e.f. January 01, 2006 is at **Annexure-II**. This increase has been allowed at 15.87% in the case of domestic tariff to keep it uniform with Sui Northern Gas Pipelines Limited and at 13.06% in remaining categories of consumers except feedstock supply to the fertilizer consumer who is governed by separate policy in respect of its gas prices. A comparison of the revised provisional prescribed prices and the current sale prices is at **Annexure-III**. The revised prescribed prices allowed by the Authority **on provisional basis** are subject to provision of Rule 5(7) of the NGT Rules, 2002 and the following condition:



*The price for each category of retail consumers may be re-adjusted upon receipt of Federal Government advice under Section 8 (3) of the Ordinance in respect of the sale price of gas for each category of retail consumers provided that the overall increase in the average prescribed price remains unchanged so that the Petitioner is able to achieve its total revenue requirements in accordance with Section 8 (6) (f) of the Ordinance.*

10. Under Section 8 (3) of the Ordinance, the Federal Government is required to advise the Authority within 40 days of advice from the Authority of revision of prescribed prices, of the minimum charges and the sale price for each category of retail consumers for notification in the Official Gazette by the Authority. Further, under Section 8 (4) of the Ordinance, if the Federal Government fails to so advise within 40 days and the prescribed price for any category of retail consumers determined by the Authority is higher than the most recently notified sale price for that category of retail consumers, the Authority shall notify in the Official Gazette the prescribed price as determined by the Authority to be the sale price for the said category of retail consumers.
11. On the basis of the revised prescribed prices as determined by the Authority at **Annexure-III**, the Federal Government may take necessary action under Section 8 (3) of the Ordinance.

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(M. H. Asif)  
Member (Finance)

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(Rashid Farooq)  
Member (Oil)

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(Jawaid Inam)  
Member (Gas)/  
Vice Chairman

\_\_\_\_\_  
(Munir Ahmad)  
Chairman

Islamabad,  
November 18, 2005



*Annexure-I*

**SUI SOUTHERN GAS COMPANY LIMITED**

**Computations of Second Review of Estimated Revenue Requirement for FY 2005-06**

Particulars	The Motion	Determined by OGRA
<b>"A" Net Operating Revenues</b>		
Gross sales net of general sales tax	62,186	62,186
Less: Gas development surcharge- existing	2,025	2,025
<b>Net sales at current prescribed price</b>	<b>60,161</b>	<b>60,161</b>
Meter rentals	473	473
Late payment surcharge	248	248
Amortization of deferred credit	197	197
Sale of gas condensate	296	296
Meter manufacturing profit	33	33
Gas transportation charges	506	506
Other operating income	299	299
Income from JJVL	2,239	2,239
<b>Total Operating Revenue "A"</b>	<b>64,451</b>	<b>64,451</b>
<b>"B" Operating Expenses</b>		
Cost of gas	57,950	57,950
Cut of UFG	(152)	(152)
Transmission and distribution cost	3,780	3,780
Gas internally consumed	294	294
Depreciation	2,714	2,714
Other charges including (W.P.P.F)	156	156
Deferral account	350	350
<b>Total Operating Expenses "B"</b>	<b>65,091</b>	<b>65,091</b>
<b>"C" Operating profit / (loss) (A-B)</b>	<b>(640)</b>	<b>(640)</b>
<b>Return required on net operating fixed assets:</b>		
Net operating fixed assets at beginning	20,500	20,500
Net operating fixed assets at ending	22,963	22,963
	43,463	43,463
<b>Average fixed net assets (I)</b>	<b>21,732</b>	<b>21,732</b>
Deferred credit at beginning	2,220	2,220
Deferred credit at ending	2,410	2,410
	4,630	4,630
<b>Average net deferred credit (II)</b>	<b>2,315</b>	<b>2,315</b>
<b>"D" Average operating assets (I-II)</b>	<b>19,417</b>	<b>19,417</b>
<b>"E" 17% return required on net assets</b>	<b>3,301</b>	<b>3,301</b>
<b>"F" Excess/ (shortfall) over return required</b>	<b>3,941</b>	<b>3,941</b>
<b>"G" Projected gas sale (BBTU) from Jan-06 to Jun-06</b>	<b>170,252</b>	<b>170,252</b>
<b>Average increase/(decrease) in prescribed price (Rs. / MMBTU)</b>	<b>23.15</b>	<b>23.15</b>
<b>[(F/G) x 1000]</b>		



**Annexure-II**

**PRESCRIBED PRICES FOR EACH CATEGORY OF CONSUMER  
AS DETERMINED BY THE OIL AND GAS REGULATORY  
AUTHORITY**

Notified Prescribed Prices for the period 01.07.05 to 31.12.05	Prescribed Prices for the period 01.01.06 to 30.06.06
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**CATEGORY**

Rs. per MMBTU

**(i) Domestic Consumers**

*For domestic consumers, including residential colonies, mosques, churches, temples, madrassas, other religious places and hostels attached thereto, Government and semi-Government offices, hospitals, Government guest houses, Armed Forces messes and langars, universities, colleges, schools, private educational institutions, orphanages and other charitable institutions.*

<i>First slab (upto 100 cubic metres per month).</i>	73.95	85.19
<i>Second slab (over 100 upto 200 cubic metres per month).</i>	126.20	147.03
<i>Third slab (over 200 upto 300 cubic metres per month).</i>	201.91	235.21
<i>Fourth slab (over 300 cubic metres per month).</i>	262.65	305.97

*For hostels and residential colonies to whom gas is supplied through bulk meters.*

<i>All off-takes at flat rate of</i>	126.20	147.03
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**(ii) Commercial Consumers**

*All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, milk shops, tea stalls, canteens, barber shops, laundries, tandours, places of entertainment like cinemas, clubs, theaters and private offices, clinics, maternity homes etc*

<i>All off-takes at flat rate of</i>	222.66	251.75
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**(iii) Ice Factories**

<i>All off-takes at flat rate of</i>	222.66	251.75
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**(iv) Industrial Consumers**

*All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.*

<i>All off-takes at flat rate of</i>	201.62	227.96
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<b>(v) <u>Captive Power</u></b>	<i>All off-takes at flat rate of</i>	201.62	227.96
<b>(vi) <u>CNG Stations</u></b>	<i>All off-takes at flat rate of</i>	201.62	227.96
<b>(vii) <u>Cement Factories</u></b>	<i>All off-takes at flat rate of</i>	201.62	227.96
<b>(viii) <u>Pakistan Steel</u></b>	<i>All off-takes at flat rate of</i>	201.62	227.96
<b>(ix) <u>FFC Jordan Fertilizer Company</u></b>	(i) For gas used as feed stock for Fertilizer.	36.77	36.77
	(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories.	201.62	227.96
<b>(x) <u>Power Stations</u></b>	<i>All off-takes at flat rate of</i>	201.62	227.96
<b>Average BTU per SCFT assumed by petitioner</b>		<b>960</b>	





**Annexure-III**

**COMPARISON OF EXISTING CONSUMER GAS PRICES AND PRESCRIBED PRICES FOR EACH CATEGORY OF CONSUMER AS DETERMINED BY THE OIL AND GAS REGULATORY AUTHORITY W.E.F. 1.1.06**

<b>Existing consumer gas price effective 01.07.05</b>	<b>Prescribed Prices for the period 01.01.06 to 30.06.06</b>	<b>Difference</b>
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**CATEGORY**

RUPEE PER MMBTU

**(i) Domestic Consumers**

*For domestic consumers, including residential colonies, mosques, churches, temples, madrassas, other religious places and hostels attached thereto, Government and semi-Government offices, hospitals, Government guest houses, Armed Forces messes and langars, universities, colleges, schools, private educational institutions, orphanages and other charitable institutions.*

<i>First slab (upto 100 cubic metres per month).</i>	73.95	85.19	(11.24)
<i>Second slab (over 100 upto 200 cubic metres per month).</i>	127.62	147.03	(19.41)
<i>Third slab (over 200 upto 300 cubic metres per month).</i>	204.17	235.21	(31.04)
<i>Fourth slab (over 300 cubic metres per month).</i>	265.59	305.97	(40.38)

*For hostels and residential colonies to whom gas is supplied through bulk meters.*

<i>All off-takes at flat rate of</i>	127.62	147.03	(19.41)
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**(ii) Commercial Consumers**

*All establishments registered as commercial units with local authorities or dealing in consumer items for direct commercial sale like cafes, milk shops, tea stalls, canteens, barber shops, laundries, tandours, places of entertainment like cinemas, clubs, theaters and private offices, clinics, maternity homes etc*

<i>All off-takes at flat rate of</i>	234.67	251.75	(17.08)
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**(iii) Ice Factories**

<i>All off-takes at flat rate of</i>	234.67	251.75	(17.08)
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**(iv) Industrial Consumers**

*All consumers engaged in the processing of industrial raw material into value added finished products irrespective of the volume of gas consumed including hotel industry but excluding such industries for which a separate rate has been prescribed.*

<i>All off-takes at flat rate of</i>	208.56	227.96	(19.40)
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<b>(v) <u>Captive Power</u></b>				
<i>All off-takes at flat rate of</i>	208.56	227.96	(19.40)	
<b>(vi) <u>CNG Stations</u></b>				
<i>All off-takes at flat rate of</i>	208.56	227.96	(19.40)	
<b>(vii) <u>Cement Factories</u></b>				
<i>All off-takes at flat rate of</i>	240.28	227.96	12.32	
<b>viii) <u>Pakistan Steel</u></b>				
<i>All off-takes at flat rate of</i>	208.56	227.96	(19.40)	
<b>(ix) <u>FEC Jordan Fertilizer Company</u></b>				
(i) For gas used as feed stock for Fertilizer.	36.77	36.77	-	
(ii) For gas used as fuel for generating steam and electricity and for usage in housing colonies for fertilizer factories.	208.56	227.96	(19.40)	
<b>(x) <u>Power Stations</u></b>				
<i>All off-takes at flat rate of</i>	208.56	227.96	(19.40)	
<b>Average BTU per SCFT assumed by petitioner</b>	<b>960</b>			